

**SENATE BUDGET AND FISCAL REVIEW
OVERVIEW OF THE GOVERNOR'S BUDGET
AND THE REPUBLICAN ALTERNATIVE**

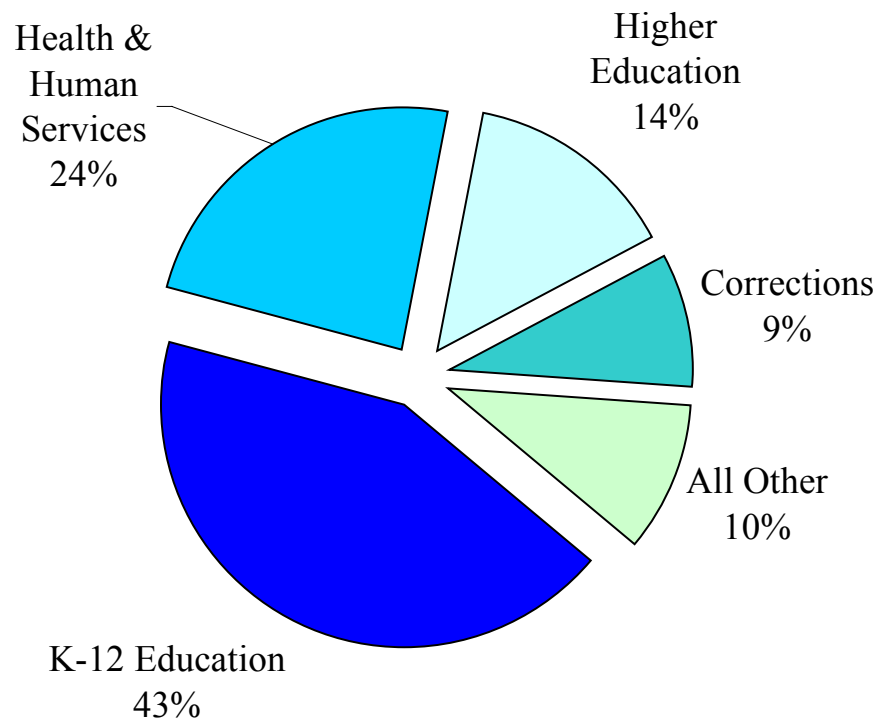
March 26, 2003
9:30 a.m. – 1:00 p.m.

I. Examples of Potential Reductions:

4260	Department of Health
4300	Department of Developmental Services
4440	Department of Mental Health
5180	Department of Social Services
5240	Department of Corrections
3540	Department of Forestry and Fire Protection
3790	Department of Parks and Recreation
3900	Air Resources Board
3940	Water Resources Control Board
0250	Judiciary
0450	Trial Court Funding
0860	Board of Equalization
1730	Franchise Tax Board
2920	Technology, Trade & Commerce Agency
9100	Tax Relief
9210	Local Government Financing

Department of Finance
Legislative Analyst Office
Public Comment

Allocation of General Fund Spending
Governor's Budget
2003-04



General Fund Expenditures That Cannot Be Reduced Based on the 2003-04 Governor's Budget

(Dollars in Millions)

The following reflects the consensus agreement reached on March 11, 2003, and March 21, 2003, among DOF, LAO, & Leg staff of GF expenditures that cannot be reduced.

	<u>2002-03</u>	<u>2003-04</u>
Special Education	\$2,711	\$2,659
SSI/SSP (federal minimum)	2,273	2,317
Health Benefits for Retired Annuitants	577	661
Homeowners Exemption	414	420
General Obligation Bond Debt Service	1,693	1,870
Lease Revenue Debt Service	468	539
CalWORKs (federal minimum) ^{1/}	2,504	1,605
GF Interest on loans/borrowings	241	191
Proposition 36	120	120
Cal Grants (current recipients) ^{2/}	595	486
Child Support Penalties	188	207
Lawsuits (Brown v. HHS)	48	48
Retirement Systems (PERS/STRS) ^{3/}	1,560	55
Judges Retirement	115	129
Constitutional Officers Salaries ^{4/}	34	34
	<hr/>	<hr/>
Total	\$13,541	\$11,341
CalWORKs (proposed for realignment)		<hr/> 887
Total including programs proposed for realignment	<hr/> \$13,541	<hr/> \$12,228

^{1/} Note that the amount listed for 2003-04 assumes the realignment of child care and CalWORKs employment services and administration. Without realignment, the amount of General Fund counted towards the MOE would be \$887.3 million higher.

^{2/} CSAC estimates the current year Cal Grant awards to cost \$594,789,000. Because the 2002 "new" awards have already been awarded and claimed, they cannot be taken back at this point in time.

^{3/} The STRS amount for 2003-04 of \$55.363 million is for the SBMA payment. STRS estimates that the 2003-04 payment will be \$555.363 million; however, the Governor's Budget proposed to forgo \$500 million of this payment.

^{4/} Includes 120 Legislators, 112 Judges, and 12 Constitutional Officers.



Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

A Plan to Balance the Budget Without Tax or Fee Increases

SENATE REPUBLICAN FISCAL OFFICE

February 26, 2003

Background

Table 1 shows the Legislative Analyst's Office's (LAO) estimate of how the Governor's Budget proposals would affect General Fund revenues, expenditures and ending reserves.

Table 1 Multi-year Impact of Governor's Budget (dollars in millions)				
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Carry in balance	-\$2,135	-\$4,489	\$2,968	\$4,353
Revenues and Transfer	<u>72,964</u>	<u>70,643</u>	<u>73,293</u>	<u>79,012</u>
Total Resources	\$70,829	\$66,154	\$76,261	\$83,365
Expenditures	\$75,318	\$63,186	\$71,908	\$75,961
Ending Fund Balance	-\$4,489	\$2,968	\$4,353	\$7,404
Encumbrances	<u>-1,402</u>	<u>-1,402</u>	<u>-1,402</u>	<u>-1,402</u>
Reserve	-\$5,891	\$1,566	\$2,951	\$6,002

Senate Republican Plan

Table 2 displays the Senate Republican proposal for a balanced budget that minimizes financial harm to local governments and contains ***no tax or fee increases*** (and eliminates the proposed Community College fee increase from \$11 to \$24 per unit). To accomplish this, the proposal extends the budget planning time frame for one additional year and makes a variety of other adjustments, discussed in detail below.

Table 2 Senate Republican Budget Proposal (dollars in millions)				
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
RESOURCES				
Carry in balance	-\$2,135	-\$5,783	-\$2,986	\$2,110
Revenues and Transfers	72,964	70,643	73,293	79,012
Total Resources	\$70,829	\$64,860	\$70,307	\$81,122
<i>Reject Indian Gaming Revenue</i>	0	-1,500	-1,500	-1,500
<i>Accept Transportation Loan Forgiveness</i>	0	0	650	0
<i>PERS Contribution Special Fund</i>	0	1,000	0	0
<i>Local Government Contribution</i>	500	500	500	0
RESOURCES, REVISED	\$71,329	\$64,860	\$69,957	\$79,622
EXPENDITURES	\$75,318	\$63,186	\$67,846	\$67,846
<i>Reject Realignment / Taxes</i>	0	8,154	0	0
<i>Reject Williamson Act Elimination</i>	0	39	0	0
<i>Accept Prop. 42 Transportation Suspension</i>	0	0	0	0
<i>Reject Redevelopment ERAF Shift</i>	500	250	0	0
<i>Reject the Elimination of VLF Subvention</i>	1,265	2,929	0	0
<i>Reject Fees, Restore General Fund</i>	29	595	0	0
<i>Accept PERS/STRS Bond Funding</i>	0	0	0	0
<i>Shift Medi-Cal to Cash Basis</i>	0	-1,100	0	0
<i>Proposition 98 June Deferral</i>	0	-1,100	0	0
Subtotals, Expenditures	\$77,112	\$72,953	\$67,846	\$67,846
<i>7-percent Across-the-Board Reduction</i>	\$0	-\$5,107	\$0	\$0
REVISED EXPENDITURES	\$77,112	\$67,846	\$67,846	\$67,846
Ending Fund Balance	-\$5,783	-\$2,986	\$2,110	\$11,776
Encumbrances	1,402	1,402	1,402	1,402
RESERVE	-\$7,185	-\$4,388	\$708	\$10,374

Indian Gaming Revenues. The Budget assumes the receipt of \$1.5 billion in General Fund revenues from new Tribal-State gaming Compacts with various Indian tribes. Senate Republicans do not believe that this level of revenue will be realized; therefore it is not included as a revenue source.

Transportation Loan Forgiveness. The Budget proposes to forgive a \$500 million loan repayment from the General Fund to the Transportation Congestion Relief Fund (TCRF) in fiscal year 2003-04. Senate Republicans propose to defer loan repayment for two years rather than forgive the loan. This will increase General Fund resources by \$650 million in 2004-05.

PERS/STRS Contribution Special Fund. The additional resources associated with this proposal are described below, together with the expenditure reductions component. In addition, Senate Republicans propose to restore the Tier 2 retirement benefit package for new employees. Tier 2 – which is a reduced package of retirement benefits that applies to new employees – was adopted in the late 1980's as a long-term cost-saving measure, but abandoned in the late 1990's when the PERS fund was awash in stock market gains. The elimination of Tier 2 was fiscally imprudent and is one of the major reasons that the state's PERS contributions are now slated to rise dramatically.

Local Government Contribution. The Budget proposes over \$5 billion in shifts from local government in 2002-03 and 2003-04. Assuming the proposed shifts continue into the next year, the local government burden would be \$8.6 billion (exclusive of the \$1 billion in deferral of mandate payments). Senate Republicans do not support the proposed shifts from local government. Instead, Senate Republicans propose to negotiate with local governments a more reasonable, three-year, \$500 million-per-year contribution to the budget solution. This will provide local governments the flexibility to plan how best to contribute. In addition, the Budget proposes to defer approximately \$1 billion in reimbursements for state mandated programs. Senate Republicans propose to eliminate the mandates, thereby giving local government the flexibility to reduce costs.

Realignment/Taxes. The Budget proposes \$8.2 billion of General Fund savings in 2003-04 due to the shift of responsibility of various programs to local governments. Local governments would receive revenues from a variety of tax increases to pay for these new costs. Legislative Counsel has opined that the proposed sequestration of the new revenues from Proposition 98 is unconstitutional. Therefore, the Budget overestimates the new revenue that would be available for non-Proposition 98 purposes by \$3.5 billion. Senate Republicans do not support the realignment and its associated tax increases.

Williamson Act. The Budget proposes to repeal the \$39 million Williamson Act Open Space Subvention Program effective 2003-04. Senate Republicans do not support this proposal.

Proposition 42 Transportation Funding. The Budget proposes to suspend the \$1.1 billion transfer from the General Fund to transportation funds in fiscal year 2003-04, which would otherwise occur pursuant to Prop. 42. Senate Republicans accept the Budget proposal but would defer, rather than suspend, the transfer. In addition, Senate Republicans propose that transportation efficiency improvements be included in the final budget package.

Redevelopment Funds. The Budget proposes to shift \$500 million in low-income housing set-aside funds to ERAF in 2002-03 and to permanently shift \$250 million (and growing) in redevelopment property tax increment beginning in 2003-04. Senate Republicans do not support this proposal.

VLF Subvention. The Governor's Budget proposes to eliminate the major portion of the VLF subvention to local governments, for a General Fund spending reduction of \$1.3 billion in 2002-03 and \$3 billion 2003-04. Senate Republicans do not support this proposal.

Fee Increases. The Budget proposes fee increases that result in General Fund expenditure reductions totaling \$29 million in 2002-03 and \$596 million in 2003-04. Senate Republicans do not support these fee increases. (See attachment for fee detail.)

PERS/STRS. The Budget assumes that the State will issue Pension Obligation Bonds to pay the \$1.5 billion General Fund contribution to PERS and STRS in the 2003-04 fiscal year. This proposal results

in a one-time General Fund savings of \$1.5 billion. Senate Republicans include this savings. In addition, the Senate Republican plan adds to the Governor's proposal by increasing the size of the Pension Obligation Bond to include all special fund contributions to PERS/STRS in the 2003-04 fiscal year. In return, the special funds will make their 2003-04 fiscal year contribution to the General Fund, thereby generating a one-time General Fund revenue increase of \$1 billion in the 2003-04 fiscal year. (Note: the additional benefit from the special funds component appears in the resources portion of the table.)

Shift Medi-Cal to Cash Basis. Senate Republicans propose to return Medi-Cal to a cost-based accounting methodology, consistent with the way the state accounts for debt service payments on General Obligation bonds. Currently, Medi-Cal attributes costs to the year in which services are provided, which is an accrual basis of accounting. Attributing costs to the year in which payment for services is made (cash-based accounting) will result in a one-time General Fund savings of \$1.1 billion. This accounting change will have no effect on services or on the timing of payments to providers.

Proposition 98 Deferral. The Senate and the Assembly have already passed bills to defer the final apportionment to schools from June 25th to July 2nd (thus into the following fiscal year), for a General Fund savings of approximately \$1.1 billion in 2002-03. In order to avoid suspending Prop-98 in 2002-03, the Senate Republican proposal reflects these one-time savings in 2003-04.

Seven-Percent Across-the-Board Reduction. In order to balance the budget with the above adjustments, it is necessary to implement a General Fund reduction of seven percent, or \$5.1 billion beginning in 2003-04.

Multi-year Budgeting and Spending Freeze. Finally, Senate Republicans propose a two-year budget coupled with a hard freeze in spending, which would require General Fund spending in 2004-05 to be no more than in 2003-04. Together with the adjustments detailed above, this will result in a budget that balances in 2004-05.

Fee Detail

The Governor's budget assumes that fee increases will generate approximately \$1.3 billion. Of this amount, approximately \$29 million in fiscal year 2002-03 and \$596 million in 2003-04 would offset General Fund costs. Rejection of these fee increases would add \$596 million to General Fund expenditures in 2003-04. These fee increases are as follows:

	<u>(dollars in thousands)</u>
<u>Education - \$365.5 million</u>	
Community college tuition	\$365,278
Community college facilities plan fee	240
<u>Business - \$121.3 million</u>	
Air pollution permitting fee	10,000
Pesticide permitting/licensing & examination	10,555
Waste water discharge permitting	13,620
Physician training fee	4,498
Workers' compensation administration	75,759
Social services licensing (foster care homes, child care facilities, senior care facilities)	6,843
<u>Consumer - \$108.9 million</u>	
Trial court fees (filing motions, security, etc.)	66,200
Appellate filing fee	2,100
HCD employee housing enforcement	721
HCD migrant services	625
Fishing, hunting license	2,000
Park use fees	20,000
California State Library service fee	15,145
Earthquake insurance policy fee	884
Veterans' medical care	1,150
TOTAL	\$595,618

For more information, please contact Mike Genest, Senate Republican Fiscal Office Director at (916) 323-9221.



March 18, 2003

TO: MEMBERS OF THE CALIFORNIA LEGISLATURE

FROM: THE CALIFORNIA BUDGET PROJECT

SUBJECT: ANALYSIS OF SENATE REPUBLICANS' BUDGET BALANCING PLAN

A new analysis by the California Budget Project (CBP), *Senate Republicans' Proposal to Balance the Budget Raises Questions*, examines the proposal to eliminate the state's budget deficit by 2004-05. The CBP analysis examines the proposal, which was released on February 26, with an eye to its impact on vital programs and on future state budgets.

The proposal includes:

- No tax or fee increases;
- Carrying forward \$3.0 billion of the deficit from 2003-04 to 2004-05;
- Reducing spending by 7 percent across the board in 2003-04 in addition to accepting most of the Governor's spending reductions; and
- Imposing a spending cap in 2004-05.

The CBP analysis finds that the Senate Republicans' proposal would:

- Require a suspension of the Proposition 98 guarantee in 2003-04 and may require suspension in 2004-05;
- Increase some ongoing program obligations in 2003-04 over the Governor's Proposed Budget without increasing revenues, thereby requiring offsetting spending reductions in other parts of the budget;
- Not take into account the fact that some spending could not be reduced as part of the 7 percent across-the-board reduction and would thus require reductions much greater than 7 percent -- and perhaps as high as 18.6 percent or higher -- for programs without constitutional or federal protections; and
- Require additional reductions in the level of services that could be provided in 2004-05, when the plan proposes a spending cap, due to increased costs related to population and enrollment growth and inflation.

As always, we welcome your feedback and suggestions. Please do not hesitate to contact the CBP at 444-0500 if you have questions about this publication.

Enclosure



March 7, 2003

SENATE REPUBLICANS' PROPOSAL TO BALANCE THE BUDGET RAISES QUESTIONS

On February 26, 2003, the Senate Republican Caucus released a proposal to eliminate the state's General Fund deficit by 2004-05.¹ The Senate Republicans' plan, unlike Governor Davis' proposal, does not bridge the sizable budget gap in 2003-04, but rather carries forward a deficit of \$3.0 billion from 2003-04 to 2004-05. The proposal also rejects the use of new taxes and fees to address the deficit.

This analysis compares the Senate Republicans' proposal for bridging the gap to Governor Davis' January Budget proposal. The Senate Republicans' plan accepts most of the Governor's proposed spending reductions. In addition, the plan includes an unallocated reduction of 7 percent in 2003-04 and a "hard" spending cap of \$67.8 billion for at least 2004-05 and 2005-06. The Senate Republicans' plan also rejects the Governor's proposal to shift \$8.2 billion in funding responsibilities for health and social services programs to counties, along with the tax increases proposed by the Governor to fund the proposed "realignment." This increases General Fund program obligations in 2003-04 and subsequent years as compared with the Governor's proposal. The Senate Republicans' proposal increases current year spending above the Governor's Proposed Budget by \$1.8 billion and 2003-04 spending by \$4.7 billion.

The Senate Republicans' plan also rejects several spending reductions proposed by the Governor, including the elimination of the backfill of Vehicle License Fee (VLF) revenues to local governments and the shift of local redevelopment funds to the state General Fund and to schools. The plan also rejects the Governor's assumption that the state will collect \$1.5 billion in revenues from Native American gaming activities. The plan balances higher costs and lower revenues in 2003-04 with a spending freeze after 2003-04, even though program obligations will continue to increase. The following analysis assesses the impact of the Senate Republicans' proposal and identifies areas for further consideration.

ISSUES RAISED BY THE SENATE REPUBLICANS' PROPOSAL

- ***The Senate Republicans' proposal increases ongoing program obligations in 2003-04 over the Governor's Proposed Budget by \$4.7 billion without increasing revenues.*** The Governor's proposal, in contrast, raises \$8.3 billion in revenues to help bridge the \$18 billion structural gap between revenues and program costs.
- ***The Senate Republicans' proposal does not identify how the 7 percent (\$5.1 billion) across-the-board reduction will be accomplished.*** Many program expenditures, such as K-12 Education and California Community Colleges, are subject to constitutional spending guarantees, state or federal provisions entitling services to all who meet eligibility criteria, or federal spending requirements. The plan does not specify whether constitutional protections should be suspended, and, if they are not, where the additional cuts should be made to make up for unrealized savings.

- ***The Senate Republicans' proposal fails to recognize the impact of rising program costs in 2004-05 and beyond.*** The Legislative Analyst's Office (LAO) estimates that expenditures will increase by \$9.4 billion (14.8 percent) from 2003-04 to 2004-05 based on the Governor's proposal, reflecting both policy decisions and growing costs of providing services. The increase includes, for example, the cost of the Governor's proposal to restructure payments to the state's pension systems and the restructuring of the state's debt in 2002-03. In addition, many of the state's programs are driven by enrollment (K-12 and Higher Education) or caseload (Medi-Cal and In-Home Support Services), which often exceed population growth. Population growth and inflation alone would add an estimated \$3 billion in program costs in 2004-05. The spending freeze would likely mean that the Legislature would have to make additional substantial program reductions in 2004-05, perhaps greater than those made in 2003-04.
- ***The Senate Republicans' plan accepts, and expands, the Governor's proposal to save \$1.5 billion by restructuring payments to the state's pension systems.*** The Senate Republicans' plan increases the restructuring proposal to \$2.5 billion by including \$1 billion in payments to the pension systems that are ordinarily made out of special funds.² The special funds payments would be deposited into the General Fund instead of into the retirement systems. If the restructuring takes the form of pension obligation bonds, the Senate Republicans' proposal to include special funds would increase debt payments in future years over the Governor's proposal. The LAO rejects the pension restructuring proposals, arguing that using debt to fund current spending is unwise fiscal policy.³
- ***The Senate Republicans' proposal to defer \$1.1 billion in K-12 Education spending from 2003-04 to 2004-05 would reduce Proposition 98 expenditures below the minimum guarantee, which would require suspension of the guarantee in 2003-04.***⁴ Suspension of the Proposition 98 guarantee requires a two-thirds vote of both houses of the Legislature and approval by the Governor, and has never occurred before.
- ***The Senate Republicans' proposal may require suspension of Proposition 98 in 2004-05.*** The LAO estimates that the General Fund share of the Proposition 98 minimum guarantee will increase by approximately \$1.1 billion in 2004-05.⁵ Therefore, to remain within the Senate Republicans' proposed spending cap in 2004-05, it would be necessary to either suspend the Proposition 98 guarantee again or cut non-Proposition 98 programs by up to an additional \$4.1 billion.⁶ This amount would result from freezing Proposition 98 General Fund spending at the 2003-04 level proposed by the Senate Republicans, which is \$3.0 billion below the LAO's estimate of the General Fund share of the minimum guarantee, and not funding the \$1.1 billion in growth to the Proposition 98 guarantee.⁷
- ***The Senate Republicans' proposal includes a switch in the accounting system for Medi-Cal expenditures.*** This shift from accrual to cash accounting would result in one-time savings of \$1.1 billion by shifting expenditures from 2003-04 to 2004-05. The accounting shift does not change the actual amount that would be paid to Medi-Cal providers but, by moving expenditures from 2003-04 to 2004-05, it would effectively increase 2004-05 expenditures by \$1.1 billion as compared to 2003-04 spending. However, the Senate Republicans' proposal freezes Medi-Cal spending at the artificially low 2003-04 level in 2004-05. Thus, in order to keep General Fund spending frozen in 2004-05, the Legislature would need to find an additional \$1.1 billion in reductions in Medi-Cal or other programs.

WHAT WOULD A 7 PERCENT ACROSS-THE-BOARD REDUCTION MEAN?

The proposal includes a 7 percent across-the-board reduction for a savings of \$5.1 billion. However, the state cannot reduce spending in many programs because they are required by the state constitution or are necessary to fulfill federal spending requirements.⁸ In other spending areas, reductions may be limited due to the impact of voter-approved initiatives, for example, California's "Three Strikes" law could limit the ability to cut Corrections. Exempting a small number of expenditures that are strictly mandatory from the proposed across-the-board cuts would require a 9.0 percent reduction in remaining programs, including Corrections, K-12 Education and the California Community Colleges, and Medi-Cal. If the Legislature opts not to suspend the Proposition 98 guarantee, spending in other programs would have to be reduced by 18.6 percent. Examples of the impact of a 7 percent across-the-board cut include:

EDUCATION

- A 7 percent reduction to Proposition 98 would result in an additional reduction of \$1.8 billion in K-12 Education spending in 2003-04. In combination with the proposed deferral of \$1.1 billion, this reduction would lower per-pupil spending by approximately \$487. This is in addition to the Governor's proposed \$2.2 billion reduction in K-12 Education funding in 2002-03.

HEALTH PROGRAMS

- A 7 percent reduction in state spending for the Healthy Families Program means that approximately 50,000 children would lose health coverage.
- The Senate Republicans' plan accepts the Governor's proposal to make sweeping reductions in Medi-Cal eligibility, benefits, and provider rates. The Governor proposes eliminating 18 Medi-Cal benefits, reducing provider reimbursement rates by 15 percent, and reducing eligibility for certain groups not required by federal law. Further reductions would require the Legislature to eliminate other benefits for adults not required by federal law, such as prescription drugs. Medi-Cal spending could also be reduced by eliminating eligibility for pregnant women and infants between 133 and 200 percent of the federal poverty level (FPL), further restricting eligibility for the aged and disabled, or rescinding continuous eligibility for children. Alternatively, the Legislature could reduce provider reimbursement rates beyond the 15 percent cut proposed by the Governor.

SOCIAL SERVICES PROGRAMS

- A 7 percent reduction in state spending on the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program is equivalent to \$162 million. However, California cannot reduce spending in this program because the Governor's proposal lowers SSP payments to the federal minimum. Thus, offsetting reductions of \$162 million would have to be made to other programs to meet the Senate Republicans' across-the-board reduction.
- California cannot spend less on the CalWORKs program without being subject to federal penalties.⁹ If the state meets its full CalWORKs maintenance-of-effort obligation in 2003-04, approximately \$187 million in offsetting reductions would have to be made to other programs to fulfill the proposed 7 percent across-the-board reduction.

- Reductions to Child Welfare Services, food stamps administration, and Medi-Cal administration may put California at risk of penalties for not meeting federal accountability standards. California failed a federal performance review of state Child Welfare Services and foster care programs in 2002 and received a federal penalty because of its high error rate in calculating food stamp eligibility. Cuts to these programs would potentially subject the state to further penalties.
- California is federally required to serve a portion of the In-Home Supportive Services (IHSS) recipients (Personal Care Services Program recipients) with federal Medicaid services. It is unclear how much the state can reduce IHSS and continue to meet federal requirements.
- California could eliminate \$110 million in General Fund support for state-only food and cash assistance programs for low-income legal immigrants to offset the inability to cut other social service programs. This would eliminate cash assistance to 11,000 elderly and disabled immigrants and food stamps for 12,000 low-income immigrants.

LOCAL GOVERNMENT

- The state currently backfills the loss of VLF revenues to local governments due to the 1998 reduction of the fee, a portion of the backfill reimburses local governments for programs shifted to counties as part of the 1991 realignment. The Senate Republicans' plan rejects the Governor's proposal to eliminate the non-realignment share of the VLF backfill to local governments. The realignment portion of the VLF backfill cannot be reduced without triggering potential mandate claims. Thus, a 7 percent reduction to the backfill would cost local governments \$272 million in general purpose funds in 2003-04. In addition, the LAO estimates the cost of the VLF subvention to be \$4.1 billion in 2004-05, of which approximately \$1 billion is dedicated to realignment. If the VLF subvention is frozen at the 2003-04 level to remain within the proposed spending cap, local governments would lose approximately \$455 million in general purpose funds in 2004-05. Alternatively, the same amount could be cut from other programs to remain within the spending cap.
- The plan includes a \$500 million local government "contribution" to the budget solution, which would exacerbate the impact of reductions in state funding for health and social service programs administered by counties. Local governments would be required either to reduce service levels in these programs or cut other locally funded programs such as law enforcement.

ENVIRONMENTAL PROTECTION/RESOURCES

- The Senate Republicans' plan rejects the Governor's proposal to replace \$58.1 million in General Fund spending with increased fees for programs administered by the Department of Parks and Recreation, the Department of Fish and Game, the Department of Pesticide Regulation, the State Water Resources Control Board, and the Air Resources Board. However, a 7 percent reduction to the Resources and California Environmental Protection Agencies translates into a 20 percent reduction for environmental programs between 2002-03 and 2003-04.

PUBLIC SAFETY

- While the Governor's Proposed Budget left public safety relatively untouched, the Senate Republicans' proposed 7 percent reduction would translate into reductions of \$360.6 million from the Department of Corrections, \$21.1 million from the Department of Justice, \$4.5 million from the Office of Criminal Justice Planning, and \$3 million from the Military Department.

SENATE REPUBLICAN PLAN INCREASES COSTS IN 2004-05

Certain proposals in the Senate Republicans' plan would increase or defer costs in 2004-05 and subsequent years.

- **Proposition 42:** The Governor proposes to *suspend* a General Fund transfer of \$1.1 billion in 2003-04 to transportation funds as required by Proposition 42. The Senate Republicans' proposal *defers* the transfer, meaning that the state would be required to make the transfer at a later date. The Senate Republicans' plan, absent suspension or deferral in 2004-05, would require the 2003-04 and the 2004-05 transfers to occur in 2004-05. Thus, in order to remain within the proposed spending cap, \$1.1 billion, in addition to the amount required by Proposition 42 to be transferred in 2004-05, would have to be reduced from other programs in 2004-05.
- **State Mandates:** The plan proposes to *eliminate* state-mandated programs that have costs for local governments. Conversely, the Governor's proposal *defers* payment for these programs without eliminating the mandates. While the elimination of the mandates would eliminate future state costs related to these programs, it would not reduce the state's more than \$1.2 billion obligation to reimburse local governments for past mandate claims for programs already implemented by local governments. The Senate Republicans' plan also defers these payments in 2003-04 but does not change the obligation to pay them in the future. If these payments were made in 2004-05, more than \$1.2 billion would have to be reduced in other programs in order to remain within the spending cap.

David Carroll and Delaine McCullough prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at www.cbp.org.

ENDNOTES

¹ Estimates of the budget shortfall for the current and budget years range from the Legislative Analyst's Office (LAO) projection of \$28 billion to the Governor's forecast of \$34.6 billion.

² The Public Employees' Retirement and the State Teachers' Retirement Systems.

³ Legislative Analyst's Office, *Analysis of the 2003-04 Budget Bill* (February 2003), p. F-16.

⁴ If the guarantee is suspended as proposed in the Senate Republicans' plan, the Proposition 98 "maintenance factor" would increase above its current level of \$3.5 billion. A "maintenance factor" occurs in years when the funding provided for Proposition 98 is below the level that would have been required under the "Test 2" calculation, which is the funding level in years with average General Fund revenue growth. In order to avoid an ongoing reduction in the guarantee level, the maintenance factor, which is equal to the difference between the Test 2 level and the actual funding level, is restored over time. The level of funding required to restore some or all of an existing maintenance factor is determined, in part, by the growth in General Fund revenues. Under the revenue estimates used as the basis of the Senate Republicans' proposal, increasing the maintenance factor would not increase the level of restoration required in 2004-05, but it would extend the obligation to restore the Proposition 98 guarantee further into the future.

⁵ The LAO estimate is based on the assumption that the Legislature reduce 2002-03 Proposition 98 spending to the LAO estimate of the minimum guarantee of \$43.8 billion.

⁶ The Proposition 98 guarantee is funded with a combination of state General Fund and local property tax revenues. Therefore, the level of non-Proposition 98 General Fund reductions that may be required under the Senate Republicans' plan could be higher or lower depending on the actual amount of local property tax revenues.

⁷ The \$3.0 billion difference is due to the \$1.1 billion deferral to 2004-05 and the 7 percent, or \$1.9 billion, reduction in 2003-04 Proposition 98 General Fund spending.

⁸ These programs include state contributions to state employees' retirement plans; debt service; health and dental benefits for state retirees; Court and Federal Mandates; Temporary Assistance for Needy Families (TANF) maintenance-of-effort spending; the federal minimum spending on State Supplementary Payment recipients; special education expenditures required to meet federal requirements; and reimbursement to local governments for property taxes lost as a result of the homeowners' exemption and state mandates.

⁹ California's TANF block grant would be reduced by the percentage by which it does not meet its MOE requirement of \$2.7 billion. It would also have to repay the amount by which it does not meet its MOE in the following year.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
0250 - Judiciary	Total	289,409	28,941	57,882	An additional 10 percent reduction would have a significant impact on family and civil case functions, and related administrative support -- the areas which the judiciary would consider "discretionary". Such a reduction would be equivalent to a 50 percent reduction to these functions.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
0450 - Trial Court Funding	Total	1,125,894	112,589	225,179	Equivalent to eliminating the entire Trial Court Trust Fund allocation to the trial courts in the smallest 31 counties, or the entire budgets for two large courts such as the trial courts in Riverside and Fresno counties. In order to achieve this level of reductions, courts would have to lay off employees, significantly reduce work on all non-criminal case proceedings, and would probably have to significantly reduce hours of operation.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
0860 - Board of Equalization	Sales and Use Tax Administration	176,020	17,602	35,204	A 10% reduction would result in a loss of 265 positions and \$60.8 million in revenue. A 20% reduction would result in a loss of 484 positions and \$137.3 million in
	State-Assessed Property Program	6,442	644	1,288	The reduction would jeopardize the ability to meet the mandated deadlines for adopting unitary values for public utilities, allocation of unitary values to individual counties, and adopting the final State-Assessed Property Tax Roll.
	Other	<u>16,707</u>	<u>1,671</u>	<u>3,341</u>	Reduction in other tax administration programs.
	Total	199,169	19,917	39,834	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
1730 - Franchise Tax Board	Personal Income Tax Administration	255,211	25,521	51,042	Decrease in auditing and/or collections staff resulting in GF revenue reduction of up to \$239.5 million and 330 PYs at 10% level and up to \$1,140.0 million and 760 PYs at 20% level
	Corporation Tax Administration	123,371	12,337	24,674	Decrease in auditing and/or collections staff resulting in GF revenue reduction of up to \$232.2 million and 298 PYs at 10% level and UP to \$722.3 million and 503 PYs at 20% level
	Other Tax Administration	<u>24,206</u>	<u>2,421</u>	<u>4,841</u>	Reduction in other programs administered by FTB, including Child Support and Senior Citizens' Property Tax and Renter's Tax
	Total	402,788	40,279	80,558	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
2920 -Technology, Trade & Commerce	Transfer to Film California First Fund	8,200	820	1,640	Further reduction in the California Film Commission that would result in less effort to keeping film industry jobs in the state.
	Transfer to Small Business Expansion Fund	4,662	466	932	Reduction in small business loans and guarantees.
	Foreign Trade Offices	3,361	336	672	Elimination or reduction in staffing of foreign trade offices.
	Other	<u>5,220</u>	<u>522</u>	<u>1,044</u>	
	Total	21,443	2,144	4,289	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
3540 - Forestry and Fire Protection	State Operations	413,297	41,330	82,659	Reductions would likely occur in Fire Protection Program. The budget proposes \$384 million for Fire Protection.
	Local Assistance	1	0	0	
	Capital Outlay	491	49	98	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
3790 - Parks & Recreation	State Operations	89,915	8,992	17,983	Reductions would effect maintenance and operation of state park system. Reductions would likely result in park closures.
	Local Assistance	7,956	796	1,591	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
3900 - Air Resources Board	State Operations	10,416	1,042	2,083	Assumes no Stationary Source Air Fee increase. 28% reduction to regulation and monitoring of stationary source air pollution.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
3940 - Water Resources Control Board	State Operations	44,633	4,463	8,927	Assumes no Waste Discharge fee increase of \$13.6 million. 30% reduction to water quality regulatory programs; eliminate coastal water monitoring; eliminate surface water monitoring; eliminate wastewater treatment operator certification program; eliminate Underground Storage Tanks Program

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
4260 - Health and Human Services					
Program 30	State Operations	243,118	24,312	48,624	A series of program reductions and eliminations would need to occur, such as: (1) eliminating by half the Tuberculosis Control Branch, (2) reducing field staff by ten from the Sexually Transmitted Disease Branch, (3) eliminating by half of the Microbial Disease Laboratory staff, (4) eliminating half of the Viral and Rickettsial Disease Laboratory staff, (5) eliminating by half of all public water system inspections, (6) reducing audits conducted on CMAC hospitals (loss of revenues), (7) reducing by half the Environmental Health Investigations Branch, (8) reducing licensing and certification staff, and (9) reducing significantly other administrative staff

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
4260 - Health and Human Services - continued					
Program 20	Medi-Cal	10,166,583	1,016,658	2,033,317	Medi-Cal can only reduce significant expenditures in three ways: Eliminate benefits or coverage, or cut rates. A ten percent reduction requires (1) elimination of optional pharmacy benefits (anti-psychotics, insulin, and antibiotics) and incontinence supplies for persons 21 and over (non-LTC), (2) further reduce provider rates by another 15%, including nursing homes, (3) eliminate the Breast and Cervical Cancer Program, (4) eliminate long-term care services for medically indigent adults, and (5) increase the state's share of the transfer amount received from disproportionate share hospitals (DSH) by an additional \$120 million
4260 - Health and Human Services - continued					

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
Program 10	Public Health	161,897	16,190	32,379	A series of program reductions and eliminations would need to occur, such as: (1) eliminating the Male Involvement Program that focuses on male responsibility and teen pregnancy prevention (\$5.5 m), (2) reducing funds for the Domestic Violence Shelters by 25 percent (\$4.3 m), (3) eliminating funds for Adult flu vaccine assistance to counties, (4) eliminating three Alzheimer's Disease Research Centers, (5) eliminating 1,550 children from the Medical Therapy Program operated under the California Children's Services Program, and (6) eliminating funds for the Hearing Coordination Centers for follow-up to the New
Totals		10,571,598	1,057,160	2,114,320	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
4300 - Developmental Services					
Program 35	State Operations	22,863	2,286	4,573	Eliminate 60 positions associated with (1) Developmental Center Program monitoring and operational oversight, (2) Regional Center program monitoring, auditing and quality assurance functions, (3) parental fee assessments, billings and collections, (4) third-party collection activities related to Developmental Centers and State Hospitals, and (5) legal and client rights activities.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
4300 - Developmental Services - contd					
Program 10	Regional Centers	1,573,743	157,374	314,749	(1) Establish waiting lists for individuals to receive services; (2) Eliminate or reduce certain services, such as Adult Day Programs, Respite Care, and Social Recreation Activities; (3) Significantly reduce case management services; (4) Expand the proposal included in the Governor's budget imposing a co-pay on parents for services; and (5) Eliminate services to consumers birth to three years of age who are
Program 20	Developmental Centers (DCs)	361,022	36,102	72,204	Would require a state-wide reduction of over 900 Level-of-Care and Non-Level-of-Care staff at the DCs resulting in drastic changes to staff-to-client ratios which would severely compromise the health and safety of consumers and most certainly result in the loss of federal certification (loss of \$289 million in
Totals		1,957,628	195,763	391,526	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
4440 - Mental Health					
Program 35	State Operations	28,647	2,865	5,729	State Hospital operations would be reduced, as well as Medi-Cal monitoring, fiscal audits, accounting and budgeting.
Program 10	Community Mental Health	299,227	29,923	59,845	(1) Eliminate the Brain Damaged Adults Program (\$12m) which eliminates services to about 14,000 caregivers of persons with brain damage likely resulting in persons moving into more costly long-term care facilities; and (2) reduce by over one-third the Integrated Services for Homeless Adults Program which means that communities (and police) will need to address the needs of more severely mentally ill individuals.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
4440 - Mental Health - continued					
Program 20	State Hospitals	533,809	53,381	106,762	Eliminate 522 forensic patient beds and 602 positions at state hospitals. Results in: (1) cost shifts back to the CDC and county jails, (2) increased costs to county mental health for additional community treatment, (3) increased costs for county-purchased beds (redistribution of fixed costs), (4) statutory changes since courts can presently transfer penal-code individuals to state hospitals for treatment, and (5) increased local mandate claims as a result of
Totals		861,683	86,168	172,337	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
5180 - Social Services	State Operations	86,742	8,674	17,348	A 10% would require elimination of 235 positions - eliminate family child care homes licensing, suspend foster care auditing and rate setting, medi-cal disability caseload backlog will increase to over 9,000 cases. A 20% reduction would require elimination of 470 positions and result in the above impacts plus elimination of licensure of school age child care centers; eliminate pre-licensing visits, annual visits and post licensing visits; eliminate criminal background checks on staff, family members and non-resident adults; eliminate an adoptions district office; increase the Medi-Cal disability caseload backlog to over
5180 - Social Services - continued	Local Assistance	7,677,205	767,721	1,535,441	Gov's budget includes \$2,133,354 for local assistance and \$2,766 for state operations to meet TANF maintenance of effort requirements. It also includes \$2,313,562 to fund SSI/SSP at the federal minimum. The remaining DSS's local assistance expenditures amount to

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
5180 - Social Services - continued	- Adoptions	258,297	25,830	51,659	A 10-20 percent reduction (\$3.4 million to \$6.8 million) to adoption services could result in the elimination of 60-110 county social workers and result in 600-1,100 fewer adoptions each year. Less adoptions could result in higher foster care costs and increased federal penalties and sanctions. Reducing grants to families that adopt a child with special needs by 10% would decrease the monthly payment from \$681 to \$612.
5180 - Social Services - continued	- CWS	664,178	66,418	132,836	A 10-20 percent reduction (\$50.9 to \$101.8 million) could result in the elimination of 800 - 1,700 social workers which could lead to less children served and a deterioration in services which could result in increased federal penalties. Additional reductions to achieve the level of savings include: elimination of the Supportive Therapeutic Options program; reduced visits to group homes; and elimination of the Emancipation

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
5180 - Social Services - continued	- Foster Care	494,316	49,432	98,863	To achieve a 10% reduction in foster care expenditures foster care rates would have to be reduced to \$606 or \$698 for FFH, \$4,533 or \$4,689 for GH and \$1,629 or \$1,636 for FFA. Reductions in foster care rates could result in reduced placement alternatives for foster children. Rate reductions could encourage providers to leave foster care for more lucrative funding streams (e.g. adult care). This may reduce placement resources, particularly at the lower end, and children could be placed at higher end placements for longer periods of time and at higher costs. A reduction to foster care county administration of \$3.4 to \$6.8

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
5180 - Social Services - continued	- IHSS	1,186,388	118,639	237,278	An estimated 10 percent in savings could be achieved by serving 24,396 fewer persons per month through the IHSS Residual Program (an approximate 30% caseload reduction), by cutting specific supportive services, service hours, or changing eligibility requirements. Each option carries with it the certainty of institutionalization for a significant
5180 - Social Services - continued	- Child Abuse Prevention	15,227	1,523	3,045	Funding for Child Abuse Prevention activities provides prevention and intervention services for children at risk of abuse and/or neglect. Reductions to this funding will result in less children and families served resulting in possible entry into or longer lengths of stay in the child

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
5240 - Corrections	Total	5,101,937	510,194	1,020,387	A 10 percent reduction is equivalent to reducing the average daily population in the state's facilities by 32,893, or releasing all the inmates from about 7 of the state's 33 institutions.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6110 - Education - K-12	State Operations	45,081	4,508	9,016	Eliminates between 30 and 60 staff consultant positions at CDE.
	Local Assistance	24,680,515	2,468,052	4,936,103	Eliminates between 17 days (10%) and 34 (20%) days of instruction. -- OR-- Eliminates the following programs under a 10 % reduction plan : K-3 and 9th grade CSR (\$1.5b); School Improvement Program (\$386); Staff Development Days (\$202m); Deferred Maintenance (\$181m); and Instructional Materials (\$102m). Under a 20 % reduction plan all of the program reductions above, plus elimination the Targeted Instructional Improvement Grants (\$662m); Adult Education (\$500m); School Transportation (\$467m); ROC/P (\$342m); Supplemental Grants (\$229m); After-School Program (\$107m); Peer Assistance and Review (\$55m); Gifted and Talented Funds (\$50m); Principal

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6110 - Education - K-12 - continued	Capital Outlay	117	12	23	Reduce funding to rehabilitate the Westridge Dormitory at the California School for the Blind, Fremont.

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6440 - University of California	Support (not including debt service)	2,897,717	289,772	579,543	A 10 percent reduction would require UC to cut approximately 32,000 FTE students, which is slightly more than the entire freshman class; due to timing issues surrounding admissions, enrollment would only be able to be reduced by approximately 12,000 FTES, which is the equivalent of the community transfer students who are admitted mid-year.
6440 - University of California - continued					As an alternative, the UC could increase student fees by 90 percent (\$3,200). This would bring the total fee costs for undergraduates to \$7,217, making UC one of the higher cost public
6440 - University of California - continued					Other 10 percent alternatives include closing the Riverside and Santa Cruz campuses; or closing the Irvine campus. Staff notes, campus closures are less likely to reap the full savings due to ongoing commitments to students

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6440 - University of California - continued					A 20 percent reduction would require UC to cut approximately 64,000 students, while this wouldn't be possible in the budget year, it would mean not admitting any new freshmen for a year and a half (beginning in Fall 2004).
6440 - University of California - continued					As another 20 percent alternative, the UC could increase student fees by \$5,200. This would bring the total fee costs to \$9,300, making UC comparable to private institutions in terms of cost.
6440 - University of California - continued					Other 20 percent alternatives include closing three of UC's nine campuses (Riverside, Santa Cruz, and Irvine). Staff notes, campus closures are less likely to reap the full savings due to ongoing commitments to students and

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6610 - California State University	Support (not including debt service)	2,521,298	252,130	504,260	A 10 percent reduction would require CSU to cut approximately 38,000 FTE students, which is the equivalent of the Fullerton, Dominguez Hills and San Marcos campus populations combined. Like the UC, this would be a difficult cut to implement in budget year since students are currently
6610 - California State University - continued					As an alternative, the CSU could increase student fees by 71 percent (or \$912) above the amount undergraduate students are paying in current year, bringing the total fee costs for
6610 - California State University - continued					Other 10 percent alternatives include closing three of the CSU's 23 campuses (either Dominguez Hills, San Luis Obispo and Sonoma or Chico, Channel Islands and Los Angeles). Staff notes, campus closures are less likely to reap the full savings due to ongoing commitments to students and

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6610 - California State University - continued					A 20 percent reduction would require CSU to cut approximately 76,400 students, while this wouldn't be possible in the budget year, it would mean not admitting any new freshmen for over a year (beginning in Fall 2004).
6610 - California State University - continued					As an alternative, the CSU could increase student fees by \$1,800 (92%) over the amount charged to students in the current year, bringing the total fee level to
6610 - California State University - continued					Other 20 percent alternatives include closing six of the CSU's 23 campuses (Fullerton, Los Angeles, San Jose, Monterey Bay, Channel Islands and the Maritime Academy). Staff notes, campus closures are less likely to reap the full savings due to ongoing

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
6870 - Community Colleges	Local Assistance (not including debt service)	1,905,659	190,566	381,132	A 10 percent reduction would require the community colleges to cut student enrollment by over 54,000 FTE students, which is more than the entire South Orange and Rancho Santiago Community College Districts combined.
6870 - Community Colleges - continued					A 20 percent reduction would require the community colleges to cut over 108,000 students, which is the equivalent of the entire Los Angeles Community College District, coupled with several small
6870 - Community Colleges - continued					The Senate Republican plan does not include a student fee increase at community colleges, but it is unclear if the plan intends to "backfill" the enrollment loss (and accompanying \$219 million budget cut) proposed by the Governor.
6870 - Community Colleges - continued					If funds are "backfilled" the result, coupled with a 10 percent decrease, would be a net increase of approximately \$28 million over the amount provided in the Governor's Budget. Coupled with a 20 percent decrease, the community colleges would lose

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
7980 - Student Aid Commission	Local Assistance (not including \$475 million to continue supporting current Cal Grant recipients)	216,735	21,674	43,347	Reduction excludes continued funding for current Cal Grant recipients. 10 percent reduction would result in approximately 7,900 fewer Cal Grants to new recipients; 20 percent reduction would result in 15,000 fewer Cal Grants to new

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
9100 - Tax Relief	Senior Citizens' Property Tax Assistance	37,961	3,796	7,592	Reduction in benefits or increase in income threshold for eligibility.
	Senior Citizens' Property Tax Deferral Program	11,900	1,190	2,380	Inability to fully reimburse counties for property tax loss due to deferral.
	Senior Citizens' Renters' Tax Assistance	157,805	15,781	31,561	Reduction in benefits or increase in income threshold for eligibility.
	Vehicle License Fee Offset	<u>987,014</u>	<u>98,701</u>	<u>197,403</u>	Reduction in funds to counties for realignment.
	Total	1,194,680	119,468	238,936	

Overview of 2003-04 Governor's Proposed Budget and Republican Alternative

Item / Department	General Fund Categories	Governor's Budget (000s)	Value of a 10% further reduction (000s)	Value of a 20% further reduction (000s)	Impact
9210 - Local Government Financing	High-Technology Grants for Local Law Enforcement	18,500	1,850	3,700	Reduction in grants to cities, counties and special districts that provide law enforcement services.
	Property Tax Administration Program	60,000	6,000	12,000	Reduction in grants to counties for the costs of assessing property subject to property tax.
	Rural and Small County Law Enforcement	18,500	1,850	3,700	Reductions in \$500,000 grants to 37 smallest counties.
	Citizens' Option for Public Safety (COPS)	116,300	11,630	23,260	Reduction in grants to local law enforcement, jail construction and district attorneys.
	Juvenile Justice Programs	<u>116,300</u>	<u>11,630</u>	<u>23,260</u>	Reductions in grants to counties for juvenile justice programs.
	Total	329,600	32,960	65,920	